# Economic and Financial Monthly (JAN 2015)

Summary

The U.S. slowed in the fourth quarter, while monetary policy remains unchanged. The ECB launched outright quantitative easing measures that prompted strong market reactions. Momentum in the Chinese economy remains weak, as manufacturing deteriorates. In Hong Kong, the change in tourist purchasing patterns dented retail sales.

## ■ U.S: Sluggish growth in fourth quarter

U.S. gross domestic product advanced 2.6% at an annualized rate in the fourth quarter, a slowdown from the second and third quarter. GDP in the U.S. notched an annual growth rate of 2.4% for 2014, just a touch better than the average growth rate of 2.2% from 2010 to 2013. Thanks to a surge in hiring and a slide in gasoline prices, personal consumption expenditures rose 4.3%, the biggest gain since the first quarter of 2006. A decline in business investment, exports and government spending made an overall drag on GDP. The Federal Reserve signaled it would keep short-term interest rates near zero while the entire committee remained patient in beginning to normalize the stance of monetary policy. The Fed provided a relatively upbeat assessment of current U.S. growth in its statement，pointing out that economic activity is expanding at a solid pace and job gains are strong.

## Europe: Outright QE shook markets

On Jan 22, 2015, the European Central Bank announced an expanded stimulus in an effort to revive the Eurozone's struggling economy. The program will start in March and is intended to run through September, 2016, amounting to €60 billion ($69 billion) a month in asset purchases. Mr. Draghi signaled the purchases could be extended further if the ECB fails to meet its inflation target of just below 2%. The ECB also announced a 10 basis-point cut in the cost of the TLTRO, a further stimulus to reduce the financing cost of banks. The euro fell to an 11-year low against the dollar following the announcement. European stocks rallied and bond yields fell.

## China: Momentum remains weak while manufacturing deteriorates

China's GDP grew by 7.3% in the last quarter of 2014. Growth slowed to its weakest in 24 years, expanding 7.4% last year. In December, total retail sales of consumer goods went up by 11.9 percent year-on-year, accelerating from an 11.7 percent the month before. The investment in fixed assets (excluding rural households) increased 1.21 percent month-on-month. Manufacturing activities in China continued to shrink. In January 2015, China's manufacturing purchasing managers index (PMI) was at 49.8, the reading in in two years. Non-manufacturing purchasing manager index decreased 0.4 percentage points over the previous month.

**Hong Kong: Change in tourist purchasing patterns dents retail**

Hong Kong posted the worst retail sales figures since SARS in 2003，declining 0.2 per cent last year - mainly due to lower demand of luxury products as Beijing cracked down on graft and fewer non-Chinese tourists visited the city. Year-on-year sales in December dropped 3.9 percent after four months of consecutive growth. Although the number of mainland tourists increased by 16 per cent last year, that did not necessarily indicate a rise in spending power. Same-day travelers accounted for 60% of the total number of mainland China visitors in 2014. The figure is much higher than that of 2006 which was only 38%, leading to a decline in the sales of luxury goods.

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